



Launching in America.

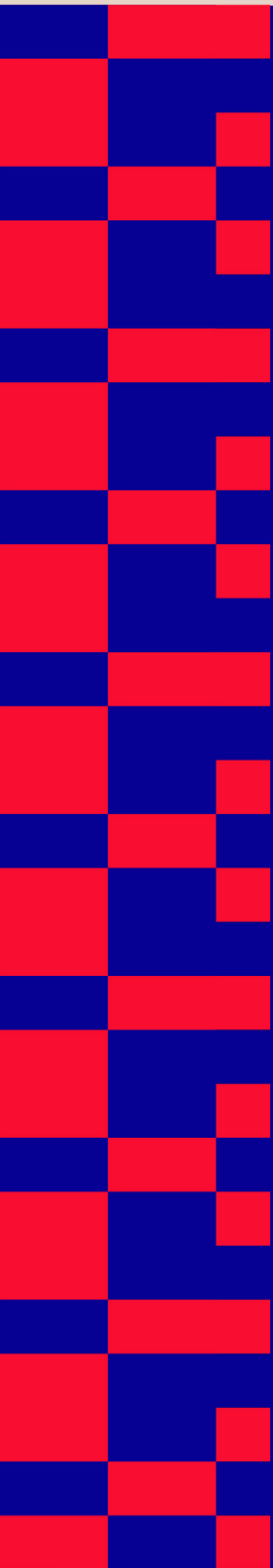
A guide to issuing via BIN sponsorship.

© 2024 THREDD



Payments Unstitched

CONTENTS



INTRODUCTION

A decorative graphic on the left side of the page, consisting of a grid of red and blue squares. The squares are arranged in a pattern that is roughly 10 columns wide and 20 rows high. The colors are alternating in a way that creates a pixelated or mosaic-like effect. The red squares are more numerous than the blue squares.

There can be many reasons for programme managers and fintechs with a proven value proposition to want to extend or introduce a card programme into the U.S. market. With more than \$5 trillion in annual debit and prepaid card transactions, the country's volumes and penetration rates represent a mature and healthy territory for growth. However, as with any geographic expansion, navigating the inherent unknowns warrants caution and benefits greatly from foresight, due diligence, and knowledgeable partners.

In this report, we offer expert insights to help make the journey to U.S. issuance through BIN sponsorship smoother and more successful for all parties.

BIN sponsorship defined.

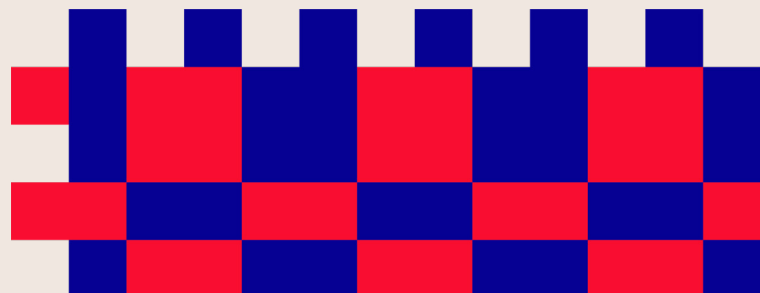
BIN sponsorship.

BIN sponsorship is a business arrangement where a BIN sponsor partners with another entity, often referred to as a programme manager, to issue payment cards. The programme manager, which could be a fintech, designs and markets the card programme, while the BIN sponsor provides underlying infrastructure and regulatory support. This partnership allows the programme manager to enter the payments market without needing a full banking license.

In essence, a BIN sponsor is the financial backbone of a card programme, providing the necessary infrastructure and compliance framework. The BIN sponsorship model offers a flexible and efficient way for businesses to enter the payments market.

BIN sponsor.

A BIN sponsor is a financial institution, typically a bank, that provides other entities with a Bank Identification Number (BIN), enabling them to issue payment cards. The BIN sponsor acts as the issuing bank for the cards, handling key functions such as settlement and regulatory compliance.



The opportunity.

Why the American market?

The U.S. market offers several compelling opportunities for foreign entities. The industry's continued pursuit of frictionless transactions across both B2C and B2B segments and the market's track record of openness to payment innovation present favourable conditions for expansion:

Market size and maturity.

The U.S. features more than 332 million people, one currency and a vast and mature payments market. It is a diverse ecosystem of financial institutions, payment networks, and technology partners, providing fertile ground for partnership, innovation and growth.

Consumer and business demand.

U.S. consumers and businesses have demonstrated a high adoption rate of digital and contactless payments, creating a strong demand for new and innovative card programmes. The country's uncharacteristic love of cheques, (an estimated 11 billion per year) provides ample ground for payment innovation.

More mobile and branchless.

According to the American Bankers Association (ABA), since 2020, U.S. consumers have consistently conducted their banking via mobiles more often than any other method. Similarly, mobile and wallets' share of POS (15%) and e-commerce transactions (37%) remains healthy and growing. With reliance on traditional banking and plastics waning, virtual card programmes with limited physical components lower the barrier for entry further.

How Americans bank.

Most used banking methods:

MOBILE APP

48%

ONLINE

23%

BANK BRANCHES

9%

(ABA - 2023)



“

Entering the U.S. market is challenging, so when partnering look closely at people and processes in addition to product. The tech can be great, but how credible are they? Are they willing to meet you where you are in terms of experience, readiness, and changing market conditions? These things shouldn't be underestimated.

”

Jim McCarthy
CEO, Thredd.



Responsibilities.

Key parties and roles.

BIN sponsor.

In the eyes of regulators, the BIN sponsor is effectively the programme's owner and is responsible for compliance, fraud prevention, and risk management. The BIN sponsor may also provide additional services such as customer support and marketing.

Programme manager.

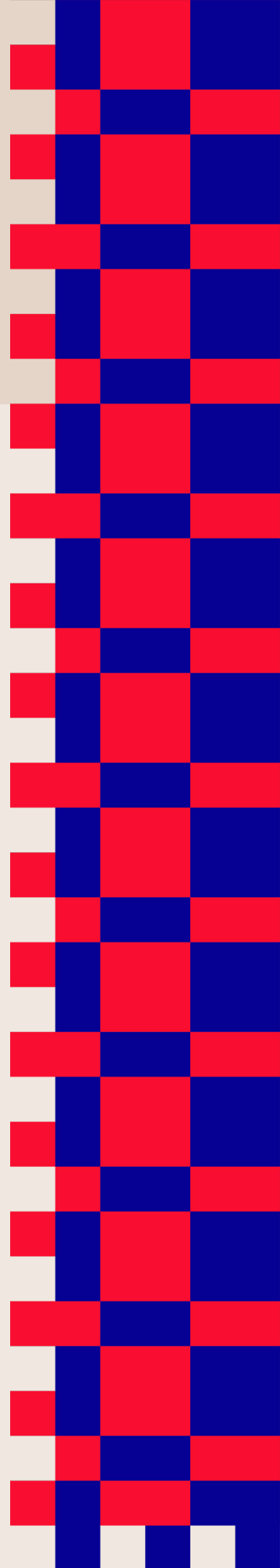
This entity is responsible for among other things, programme development, customer acquisition, and marketing. They may also be involved in customer service and dispute resolution.

Issuer processor.

This party acts as a key go-to-market partner and the operational backbone of the BIN-sponsored card programme, handling card issuance, processing, network integrations, and customer service. Their expertise and capabilities are essential for the success of the programme.

Payment network.

As the major payment networks, Visa, Mastercard, and Discover provide the payment access points. 'Regional' networks, such as STAR and Pulse, provide both ATM cash access and payment capabilities. All of these organisations establish the rules and standards for card issuance and processing.



The Durbin amendment.

The Durbin amendment is particularly noteworthy for new U.S. market entrants. Prior to the Durbin legislation, some U.S. issuers only enabled networks owned or controlled by a single entity, e.g. Visa or Mastercard. The Durbin amendment mandates enabling at least two unaffiliated networks on a debit card, promoting competition and in theory, innovation.

This is an important consideration in that integrating and managing multiple networks can add complexity to an issuer's operations which in turn might require additional staff and resources.



Defining requirements and selecting partners.

“

The dialogue in the U.S. has changed. Finding the right U.S. BIN sponsor, even for a well-established, well-capitalised global business, requires a specific kind of readiness. Our answer is to provide value-added services for greater transparency and better controls.

”

Zedrick Applin
Head of Regulatory Compliance.

Before pursuing a BIN sponsor, a programme manager seeking to enter the U.S. market will need to understand and plan for all of the business requirements to successfully bring their value proposition to life in the American market.

This stage involves many challenging questions made all the more difficult because of the likelihood that some important questions will not even occur to the responsible parties.

Defining requirements and selecting partners.

In defining requirements, selecting where to expand first and with whom to partner, a foreign programme manager or fintech should seek to limit the business risk that can come with lacking a sufficiently deep familiarity with the American technical, regulatory and business environment.

The following is a topline view of just some of the areas that require clarity, ownership and potential partnership:

Regulatory compliance.

- Federal regulations
- State regulations
- Payment network compliance

Risk management.

- Fraud prevention
- Chargeback management
- Compliance monitoring

Programme design and features.

- Card type
- Features and benefits
- Pricing and fees

Marketing and branding.

- Target market
- Branding
- Marketing channels

Customer acquisition and onboarding.

- Partnerships and distribution
- Onboarding processes
- Customer service

Technology infrastructure.

- Issuing and processing
- Card production
- Payment gateway
- Uptime and business continuity
- Change management

Financial management.

- Capital requirements
- Financial reporting
- Risk management

Issuer processor checklist.



Here are some recommended areas of consideration for foreign entities choosing an issuing processing partner for the U.S. market:

- How deep is their knowledge of the market?
- Have they successfully launched a non-U.S. client in the U.S.?
- How readily available is that experience and implementation experience in particular?
- Is there human support or just documentation?
- How invested are they in the back-office compliance and risk aspects of the business?
- What specific tools do they bring to the table (e.g. tokenisation, fraud/transaction monitoring, 3D secure, etc)?
- How well do they understand the business?
- Are they willing to help in identifying good matches?
- How well do they understand the technical differences between your home market and the U.S. (i.e. dual vs. single message)?

Programme economics.

Adding it up for success.

The economics of a BIN-sponsored programme can vary greatly depending on several factors including the scope and type of card programme issued, as well as the division of services (costs) and responsibilities between the BIN sponsor and programme manager.

For example, some key economic considerations include:

- **Projected volumes.**

How the proposed programme is forecasted to perform?

- **Fees.**

The BIN sponsor's fees for various services, including BIN provision, card processing, and regulatory compliance.

- **Revenue stream.**

The programme manager can generate revenue through card fees, interchange fees, and other sources.

- **Projected profitability.**

The forecasted profitability of the BIN-sponsored programme after operating costs and the timeframe in which it will be reached.

- **Return on investment.**

The ultimate return for the partnering parties relative to the associated costs and risks.

Programme economics are, of course, greatly informed by the type of card programme, for example:

- **Prepaid.**

Prepaid card programmes can have relatively high transaction fees and interchange rates, but they may also have lower operating costs due to the relative simplicity of the product.

- **Debit.**

Debit cards typically have lower transaction fees and interchange rates than prepaid cards, but they may require additional infrastructure and regulatory compliance.

- **Credit.**

Credit card programmes can generate higher revenue through interest charges and fees, however, they also come with increased risks and responsibilities for the programme manager (greater capital reserves) and the BIN sponsor (greater regulatory and financial risk) as they must carefully manage credit risk, comply with all applicable regulations, and provide adequate customer support.

Key regulatory players in U.S. BIN sponsorship.

Several entities may be involved in evaluating and regulating BIN-sponsored programmes in the U.S. depending on how the BIN sponsor is chartered. Each of the federal regulators have a distinct responsibility of ensuring the safety and soundness of the depository institutions that fall under their jurisdiction of oversight:

01 The **Federal Reserve** is the primary regulator of the U.S. payments system. It sets policies and oversees the operations of payment networks, banks, and other financial institutions.

02 The Consumer Financial Protection Bureau (**CFPB**) exercises oversight of consumer protection laws of financial products in the marketplace for both banking and non-banking entities.

03 The **U.S. Treasury** which includes the Office of the Comptroller of the Currency (**OCC**) and **FINCen** bureaus.

04 The Federal Deposit Insurance Company (**FDIC**) which insures U.S. bank deposits.

05 In addition to federal regulations, **state regulators** may also have specific requirements for BIN sponsors and card issuers, particularly for programmes that target residents of their state. In some cases, working with a federally chartered bank can help mitigate additional state regulations.

The current U.S. regulatory and business climate.

Like any large dynamic market, the U.S. payments industry experiences periods of heightened regulatory scrutiny concerning bank-fintech partnerships. This scrutiny has been driven by several factors, including:

Financial stability and system integrity.

Concerns about the potential risks posed by fintech innovations have led regulators to scrutinise the stability of the financial system and the role of bank-fintech partnerships.

Security, Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF).

Regulators have increased their focus on preventing money laundering and terrorism financing and have imposed stricter requirements on banks and fintechs.

Press coverage.

In particular, high-profile business stories about card-based programmes and networks where Visa, Mastercard, Discover and American Express are involved.

Despite growing recognition of the benefits of bank-fintech partnerships, the U.S. regulatory landscape is fluid and evolving requiring professional guidance and knowledgeable partners.

Differences in U.S. regulation.

While the U.S., Europe, and the U.K. share a commitment to financial stability and consumer protection, there are distinct differences in their regulatory frameworks and approaches, particularly for non-financial institutions like BIN sponsors.

Comprehensive framework.

The U.S. has a relatively comprehensive regulatory framework, overseen by the Federal Reserve, Consumer Financial Protection Bureau (CFPB), and state regulators.

Focus on consumer protection.

U.S. regulators often prioritise consumer protection, with a particular emphasis on transparency, fair practices, and data privacy.

State-level variations.

Regulatory requirements can vary significantly between states, adding to the complexity of operating in the U.S. market.



Harmonisation efforts.

The European Union (E.U.) has made significant efforts to harmonise payment regulations across member states. This has resulted in a more unified regulatory landscape.

Directive-based approach.

European regulations are often implemented through directives, which require member states to adopt national laws that align with E.U. standards.

Cross-border operations.

The E.U.'s single market facilitates cross-border operations, making it easier for non-financial institutions to expand their activities within the region.



Similar to the E.U.

The U.K.'s regulatory framework remains largely aligned with the E.U. in the area of financial services.

Financial Conduct Authority (FCA).

The FCA is the primary regulator of the U.K. financial services industry, overseeing a wide range of activities, including payment services.



Evaluating BIN sponsors.

BIN sponsorship, as the expression goes, is a two-way street. Programme managers and fintechs must give careful and very deliberate consideration to which banks they approach and seek to partner with, understanding in advance the kinds of partnerships and businesses they seek and avoid.

Along with this comes asking several key questions to understand the factors that could impact a programme's economics and long-term prospects for success, for example:

- Is the bank federally or state-chartered?
- What are the bank's assets and relative regulatory requirements?
- What is their level of experience and sophistication in sponsoring BINs?
- What is the experience of other sponsored partners under their concern?
- How many other programmes do they sponsor and what business are they in?
- What effect might any of these factors have on the proposed programme's continuity of operations and costs?

Preparation and due diligence.



Achieving success in the U.S. goes beyond simply adhering to regulations. It demands a deep understanding of the regulatory environment and a significant financial commitment. With these elements, combined with the support of a strong team and reliable partners, you can thrive.

Kieran Draper,
CEO B4B Payments USA.



Readiness for partnership.

As a practical matter, a bank and programme manager sharing a BIN is both a partnership and a sponsorship. That's because of the considerable effort, disclosure and tight cooperation that must be undertaken by the prospective partners to evaluate one another, the proposed joint opportunity and to establish and maintain trust and transparency before and throughout their relationship.

As such, being prepared for the specific areas of inquiry is key. While processes will vary from institution to institution, a programme manager seeking a BIN sponsor is looking at a discovery process lasting from three to six months or more.



Preparation and due diligence.

This process involves the preparation of several documents designed to help the bank's functional groups to begin to understand and evaluate the entity and its financial risks, operating risks, and programme model covering, for example:

Programme economics.

- What market segments and use cases is the programme manager targeting?
- How is their approach unique or differentiated relative to the current marketplace?
- What is the size of the opportunity and what are the forecasts for growth?
- How profitable and sustainable is the programme likely to be?


Company.

- History
- Ownership and structure
- Principals
- Financials

Policies, procedures and capabilities.

- KYC, KYB and AML
- Transaction monitoring
- Risk management
- Business continuity processes (BCP)
- Information and data security

Most if not all of the documentation required by banks is directly informed by the requirements of the regulators to whom they must answer, and by the entity's own risk management and compliance committees.



Go to market.

Post BIN approval.

Once a BIN sponsor and programme manager have completed all of the requisite due diligence, their respective committees and boards have approved the partnership, and contractual requirements have been met, the process of readying a programme for the U.S. market begins.

Go-to-market checklist.

Our advice for readying to go to market in the U.S.:

- How well-defined are everyone's requirements in the ecosystem?
- How well-defined are the processes and procedures that will achieve speed to market?
- How well-defined are the internal and shared processes and procedures that will:
 - Get the programme to market with speed?
 - Achieve the desired time to revenue?
 - Ensure uptime and availability?
 - Ensure serviceability once in market?



Conclusion.

A few key takeaways.



The U.S. payments market offers significant opportunities for foreign financial services companies.

Its large and diverse market, coupled with a strong demand for digital and contactless payments, makes it an attractive destination for expansion.



Partnering with a BIN sponsor is essential for entering the U.S. market.

BIN sponsors provide the necessary infrastructure, regulatory compliance, and risk management expertise.



Regulatory compliance is a critical consideration.

Adherence to federal and state regulations, as well as payment network rules, is essential for operating a successful payments programme in the U.S.



Programme design and features play a crucial role.

Carefully consider factors such as card type, features, pricing, and target market when expanding or designing your programme.



Risk management is vital.

Implement robust fraud prevention measures, manage chargebacks effectively, and monitor compliance with regulatory requirements.

Conclusion.

A few key takeaways.



Technology infrastructure is essential.

Ensure you have the necessary technology and integrated ecosystem in place to support card issuance, transaction processing, and customer service and other essential capabilities.



Marketing and attracting customers are essential.

Develop a strong demand generation programme and utilise effective marketing channels to reach your target audience.



Financial management is critical.

Carefully managing capital requirements, financial reporting, and risk management is essential.



Building strong partnerships is key.

Select strong, knowledgeable partners willing able to work through challenges with you and to navigate and introduce the right BIN sponsors, and other relevant stakeholders.

About Thredd.

Thredd (formerly GPS) is the issuing processing partner of choice for the world's leading fintechs, digital banks, eRetailers and embedded finance providers across the U.K., Europe, Asia, and North America, supporting some of the most notable successes of the modern fintech era from early-stage start-ups through to globally recognised unicorns.

The company continues to drive digital transformation in financial services redefining the way businesses pay and move money, weaving vision, next-gen technology and human expertise.

Get in touch

